DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT STATE FUNDED LOAN PROGRAMS

Financial Statements together with Report of Independent Public Accountants

For the Years Ended June 30, 2016 and 2015

SB & COMPANY, LLC
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JUNE 30, 2016 AND 2015

CONTENTS

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Net Position
As of June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Deposit with State Treasurer	$ -	$ 6,938,729
Restricted deposits - MD BRAC loans	1,632,300	5,878,225
State appropriations receivable	50,170,304	42,208,046
Loans and notes receivable, net	9,856,625	9,050,827
Accounts receivable	569,656	659,027
Accounts receivable - non-operating	1,525,458	8,728,556
Accrued interest receivable	27,063	26,914
Total Current Assets	63,781,406	73,490,324
Non-Current Assets		
Restricted deposits - CAP	390,062	367,800
Loans and notes receivable, net	487,569,714	432,292,672
Total Non-Current Assets	487,959,776	432,660,472
Total Assets	551,741,182	506,150,796
LIABILITIES		
Current Liabilities		
Account payable	4,056,095	7,350,128
Escrow held for borrowers	546,390	546,390
Other liabilities	-	130,272
Total Current Liabilities	4,602,485	8,026,790
Non-Current Liabilities		
Restricted deposits - CAP	390,062	367,800
MD BRAC notes payable	4,572,500	4,522,500
Total Non-Current Liabilities	4,962,562	4,890,300
Total Liabilities	9,565,047	12,917,090
Unrestricted Net Position	$ 542,176,135	$ 493,233,706

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Revenues, Expenses and Change in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Interest	$ 10,180,935	$ 11,274,046
Charges for services and fees	1,145,123	446,578
Other	108,900	96,497
Total Operating Revenues	11,434,958	11,817,121
Operating Expenses		
General and administrative	7,378,775	7,074,345
Servicer fees	435,722	415,781
Foreclosure expenses	153,557	310,002
Provision for loan losses	12,602,696	15,729,194
Grants	24,672,334	24,565,300
Total Operating Expenses	45,243,084	48,094,622
Operating Loss	(33,808,126)	(36,277,501)
Non-Operating Revenues		
State contributions	77,344,935	65,526,021
Contributions from outside sources	5,405,621	4,777,001
Total Non-Operating Revenues	82,750,556	70,303,022
Change in net position	48,942,429	34,025,521
Net position, beginning of year	493,233,706	459,208,185
Net Position, End of Year	$ 542,176,135	$ 493,233,706

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash Receipts:		
Interest	$ 8,063,383	$ 8,822,682
Payoffs of loan principal	9,922,036	4,827,921
Principal repayments	9,917,692	9,037,646
Charges for services and fees	1,145,123	446,578
Revenue sharing and other	110,537	96,497
Recovery on loan losses	2,372	3,074
Sales of owned real estate	603,788	315,818
Total Cash Receipts	29,764,931	23,550,216
Cash Disbursements:		
General and administrative	7,854,304	7,558,649
Foreclosure expenses	102,502	269,432
Financing loans	88,667,667	47,841,614
Grants	26,236,235	25,178,850
Total Cash Disbursements	122,860,708	80,848,545
Net Cash From Operating Activities	(93,095,777)	(57,298,329)
Cash Flows from Non-Capital Financing Activities		
Contributions from outside sources	9,970,947	2,122,338
Prior year State Contributions in receivables from the State	(7,962,259)	(3,307,625)
State treasurer contributions	79,902,435	62,968,521
Net Cash From Non-Capital Financing Activities	81,911,123	61,783,234
Net increase (decrease) in cash and cash equivalents	(11,184,654)	4,484,905
Deposit with State Treasurer and restricted deposits, beginning of year	12,816,954	8,332,049
Deposit with State Treasurer and restricted deposits, End of Year	$ 1,632,300	$ 12,816,954

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Statements of Cash Flows (continued)
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	**$ (33,808,126)**	$ (36,277,501)
Effect of changes in non-cash operating assets and liabilities:		
Accounts receivable and accrued interest	**89,222**	(66,389)
Loans and notes receivable	**(56,082,840)**	(23,065,190)
Accounts payable	**(3,294,033)**	2,110,751
Total adjustments	**(59,287,651)**	(21,020,828)
Net Cash From Operating Activities	**$ (93,095,777)**	$ (57,298,329)

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND PROGRAM DESCRIPTION

The Department of Housing and Community Development (DHCD) was formed in 1987 (Chapter 311, Acts of 1987) and charged with the administration of State Funded Loan Programs (SFLP). DHCD is a cabinet level agency that reports annually to the Governor and the General Assembly on its financial health. DHCD was created to work with partners to finance housing opportunities and revitalize great places for Maryland citizens to live, work and prosper. SFLP are among many groups of loan programs administered by the State of Maryland (the State). SFLP are a part of DHCD and do not operate as a separate legal entity or agency of the State. The summary outlined below highlights the various SFLPs administered by DHCD.

A. Rental Housing Programs (RHP)

Authority: Article - Housing and Community Development,
§§ 4-401 through 4-411;

The programs aim to increase and preserve affordable rental housing for occupancy by families of limited or low-income, including individuals and elderly households (30%-80% of area median income). Financing is provided in the form of loans for affordable rental housing development including apartments, rental town homes, congregate housing, single-room occupancy, emergency shelters, assisted living and shared living facilities. Projects may be restricted to elderly residents or special needs populations. The maximum loan amount is $2,000,000; however, the limit may be waived on a case-by-case basis. Recipients agree to rent the units to income-eligible residents for the greater of 15 years or as long as the loan is outstanding. RHP can be used for the conversion of older commercial and office buildings to market rate rental housing in designated revitalization areas in order to promote economic diversity and revitalization (the "Office Space Program"). Although, the Office Space Program is currently inactive. The Department also administers Rental Housing Works for similar purposes. Rental Housing Works (RHW) was created in FY 2013 as an initiative to stimulate the economy by increasing new construction and renovation of rental housing developments statewide. RHW also received an appropriation of $24.7 million in general obligation bond funds in the FY 2015 budget. The Department applies the RHP Regulation and policies for loans under RHW. RHW funds are generally allocated in connection with bond funds.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

B. MD-BRAC Preservation Loan Fund

The purpose of the MD-BRAC Preservation Loan Fund is to leverage DHCD, federal, local and private funds to preserve affordable rental housing by providing flexible, short-term (typically 12-48 months) loans to spur additional affordable rental housing preservation activities in the MD-BRAC geographic footprint. Projects eligible for financing must be existing multifamily rental housing with a demonstrated need for short-term financing. Multifamily rental housing may include apartment buildings, townhouses, single room occupancy (SRO) and shared housing facilities with five (5) or more units. The Fund's definition of rental housing preservation is intentionally broad, and will extend to properties that will ultimately include all or only a portion of their units restricted to households at moderate and low income levels. Projects that do not currently meet affordability standards will be required to institute income and rent restrictions following receipt of the MD-BRAC Preservation Loan. Units must be restricted as affordable for a period of no less than 10 years. "Affordable" means rental housing with existing income or rent restrictions, or housing with rents that are affordable to households that earn up to 100% of County or Area Median Income, whichever is greater.

C. Homeownership Programs

Authority: Article - Housing and Community Development,
§§4-801 through 4-810; §§4-814 through 4-816; 4-301 through 4-309; § 4-501 and §4-502

The Homeownership Programs provide low interest rate mortgages for low and moderate income first-time homebuyers who would otherwise lack the resources to purchase a home. The program began in 1970. The program includes the Downpayment and Settlement Expense Loan Program (DSELP), which provides funds for down payment and settlement expenses, and the Maryland Home Financing Program (MHFP), which makes direct loans to households to purchase homes or to disabled borrowers or borrowers with a disabled child or eligible family member under the Homeownership for Individuals with Disabilities Program. Financing is provided in the form of a loan. Regulations covering the Programs, are found at COMAR 05.03.01, and 05.03.04.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

D. Special Loan Programs

Authority: Article – Housing and Community Development, §§4-901 through 4-923, §4-926, §4-927 and §4-933, for the Maryland Housing Rehabilitation Program, Indoor Plumbing Loan Program and the Accessory, Shared and Sheltered Housing Program

Article – Housing and Community Development, §§4-701 through 4-712 for the Lead Hazard Reduction Grant and Lead Hazard Reduction Grant Program and Lead Hazard Reduction Loan Program

Article – Housing and Community Development §§4-601 and §4-612 for the Group Home Financing Program

Article – Housing and Community Development §4-501 and §4-505

The Special Loan Programs provide preferred interest rate loans and grants to low and moderate income families, sponsors of rental properties occupied primarily by limited income families, and non-profit sponsors of housing facilities, including group homes.

The programs are designed to bring housing up to code and to remediate lead paint hazards that are present in the housing stock and/or acquire, construct and modify homes suitable for use as group homes for persons with special housing needs. A listing of various activities conducted within the Special Loan Programs follows.

Maryland Housing Rehabilitation Program
The Maryland Housing Rehabilitation Program – Single Family (MHRP-SF) was effective August 3, 1977. The purpose of the program is to extend loans to eligible individuals and sponsors to finance the rehabilitation of housing occupied by families of limited income. The loan funds are used to eliminate health, safety and maintenance deficiencies and eliminate the residential properties' health, safety and maintenance deficiencies and ensure compliance with applicable housing codes and standards. The requirements of the program are outlined in COMAR 05.04.01.

Accessible Homes for Senior Homeowners Grant Program
The Accessible Homes for Senior Homeowners Grant Program was effective October 1, 2013. The purpose of the program is to finance accessibility-related renovation or repair activities for elderly homeowners. Program requirements are being drafted in response to the legislation passed in the 2013 session. The requirements of the program are outlined in COMAR 05.04.15.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

D. Special Loan Programs (continued)

Indoor Plumbing Loan Program
The Indoor Plumbing Program (IPP) was effective August 28, 1986. The purpose of the program is to make loans to or for the benefit of individuals with limited income to finance indoor plumbing pipes, equipment, wells, septic tanks, or other on-site sewage systems or connection to community water and sewage systems. The requirements of the program are outlined in COMAR 05.04.05.

Accessory, Shared and Sheltered Housing Program
The Accessory, Shared and Sheltered Housing Program (ASSP) was effective August 28, 1986. The purpose of the program is to make loans to or for the benefit of individuals with limited income to finance rehabilitation projects to provide housing opportunities for families of limited income by creating accessory, shared and sheltered housing facilities. The requirements of the program are outlined in COMAR 05.04.08.

Lead Hazard Reduction Grant and Loan Program
The Lead Hazard Reduction Grant and Loan Program (LHP) was effective August 28, 1986. It was previously called the Residential Lead Paint Abatement Program. The purpose of the program is to extend loans and grants to eligible individuals, child care centers and sponsors to finance the lead hazard reduction in residential housing units. The requirements of the program are outlined in COMAR 05.04.06.

Group Home Financing Program
The Group Home Financing Program (GHFP) was effective February 23, 1987. The purpose of the program is to provide loans to sponsors to finance the costs of acquiring, constructing, and modifying or refinancing buildings or to refinance loans which will provide or maintain group homes for low-income, elderly, handicapped, disabled, and other residents of the State with special housing needs. The requirements of the program are outlined in COMAR 05.04.09.

E. Neighborhood Revitalization Programs

Authority: Article – Housing and Community Development, §§6-301 through 6-311. Regulations concerning the program are found at COMAR 05.13.01

Neighborhood Business Development Program
The Neighborhood Business Development Program, operating as Neighborhood Business Works (NBW) was established October 1, 1995, to provide flexible gap financing for small businesses starting up or expanding in designated sustainable communities throughout Maryland. Loans are made to Maryland-based local development corporations, microenterprises, non-profit organizations, or small businesses.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

E. Neighborhood Revitalization Programs (continued)

Loans and grants are made to those organizations whose activities contribute to a broader revitalization of the sustainable community (e.g., reuse of vacant/underutilized buildings or providing needed goods or services to area residents). Financing ranges from $1,000 up to the lesser of (i) $500,000 or (ii) 50% of the total project costs. Loan applicants must provide a cash contribution of at least 5 percent of the total project costs. Regulations concerning the program are found at COMAR 05.13.01.

Capital Access Program

The Capital Access Program (CAP), a component of NBW, was established October 1, 2000, to stimulate the provision of private capital to small businesses in Priority Funding Areas throughout the State. This program stimulates private sector lending to small businesses by offering an incentive to private lenders to make loans to borrowers that otherwise might not qualify for conventional loans. It enables private lenders to establish a loan loss reserve fund from fees paid by borrowers, lenders, and the State. Enrolled amounts may range from $1,000 to $1,000,000, and either the entire loan or a portion of the loan may be enrolled. Up to $1 million from the annual appropriation for the Neighborhood Business Development Program may be used for this program.

Legislative changes to the Neighborhood Business Works Program in 2004 gave the Department the ability to:

- Assign or sell up to $4 million in loans from the BBDP each year, generating funds for new loans to small businesses. The loans can be sold to national partners, such as the Community Reinvestment Fund, who support neighborhood revitalization initiatives and purchase loans from state and local governments.
- Expand eligible uses of the Program to include microenterprises, creating jobs and expanding economic opportunities for lower income individuals and neighborhoods.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

E. Neighborhood Revitalization Programs (continued)

Legislative changes to the Neighborhood Business Works Program in 2010 gave the Department the ability to:

- Expand lending to microenterprises by reducing administrative barriers to making microloans and provide better access to capital for establishing and sustaining micro-businesses. This change also authorizes the Department to provide financial assistance to a certain entity for the purposes of the entity making subloans to eligible microenterprises. Eligible microenterprises will have less than five employees and can receive loans up to $35,000. Terms are typically less than five years and rates and fees will vary depending on the size of the loan, loan underwriting and market conditions, but would be below the rates charged for comparable loans by the U.S. Small Business Administration which currently range from 8 to 13 percent.

On average, a combined interest rate of 5 – 7% would be the maximum rate goal predicated on credit and capacity to repay the loan.

F. Community Legacy Program

Authority: Article – Housing and Community Development, Title 6, Subtitle 2, §§ 6-201 through 6-213. Regulations concerning the program are found at COMAR 05.17.01

Community Legacy Program (CLP) improves the effectiveness of State support for neighborhood revitalization by complementing and supplementing existing resources. The program provides gap resources to stabilize or revitalize communities located in Sustainable communities, and in accordance with Sustainable Community Plan. Sustainable Community Areas are a result of the 2010 Sustainable Communities Act that created a consolidated area for revitalization investment. Sustainable Community Areas were formerly known separately as Community Legacy Areas and Designated Neighborhoods and also now include Base Realignment and Closure (BRAC) Zones and designated Transit Oriented Development (TODs).

For example, the following activities have been included in Community Legacy applications:

- Establishment of programs to attract home buyers to purchase and rehabilitate vacant homes;
- Programs for existing homeowners and businesses to improve their properties;
- Development of mixed-use projects that may combine housing, retail, office, public, and open spaces.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

F. Community Legacy Program (continued)

The Neighborhood Intervention Component of the Community Legacy Program is intended to function as a preventative measure either in or outside of a Sustainable Community to address problem properties that are having a negative impact on the community. The two eligible uses of a Neighborhood Intervention Project are:

- To buy properties that need rehabilitation and redeveloping the properties through rehabilitation, demolition, reconstruction or re-use; or
- Strategically demolishing buildings that are dangerous for use or occupancy, or so deteriorated that rehabilitation is not feasible, and preparing the property for revitalization, redevelopment or re-use.

G. Strategic Demolition and Smart Growth Impact Fund (SDSGIF)

Authority: Chapter 424, Laws of Maryland 2013, SA24; Chapter 495, Laws of Maryland 2015, 81. SA24.

The Strategic Demolition and Smart Growth Impact Fund (SDSGIF) seeks to catalyze activities that accelerate economic development, job production and smart growth in existing Maryland communities. The SDSGIF aims to improve the economic vitality of "grey field development" which often faces more barriers than sprawling "green field development". Awards focus on smart growth projects that can have a high economic and revitalization impact in their existing communities. Projects will be located in designated Sustainable Communities throughout Maryland. Sustainable Communities are areas found within Priority Funding Areas (PFAs) and are targeted for revitalization. Awards are made available on a competitive basis. Lead applicants will be local governments or nonprofit community development organizations. High economic and revitalization impacts are expected to be achieved at both the local and State level.

H. Baltimore Regional Neighborhood Initiative (BRNI)

Authority: Supplemental Budget No. I, House Bill 100/Senate Bill 125: 80.S00A24.01 and 82.S00A24.02

The Baltimore Regional Neighborhood Initiative (BRNI) aims to demonstrate how strategic investment in local housing and businesses can lead to healthy, sustainable communities with a growing tax base and enhanced quality-of-life. The initiative targets communities located in the Baltimore region where modest investment and a coordinated strategy will have an appreciable neighborhood revitalization impact.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

H. Baltimore Regional Neighborhood Initiative (BRNI) (continued)

Created as a pilot in the 2013 Maryland General Assembly Session, the program is a recommendation of the House Regional Revitalization Workgroup, organized by Speaker Michael Busch. Capital and operating projects will be located in the designated Sustainable Communities in Baltimore City and the inner Baltimore beltway communities of Anne Arundel and Baltimore Counties. Sustainable Communities are areas found within Priority Funding Areas (PFAs) and are targeted for revitalization.

Awards are made available on a competitive basis. Lead applicants will be nonprofit community development organizations (CDCs or Coalitions) in Baltimore City, or the inner beltway communities of Baltimore County or Anne Arundel County, that are implementing a clear revitalization strategy in a specific neighborhood or set of neighborhoods. The revitalization strategy would aim for the goal of growing the targeted community's population and workforce, and improving key quality-of-life features that establish the conditions for increasing market-rate investment, positioning the target communities to become competitive for residential and economic investment in the region. In addition to other partners, eligible applicants are encouraged to apply along with a nonprofit Community Development Financial Institution (CDFI) partner.

The program funds will support a wide range of capital and operating community enhancement projects, including but not limited to:

- Down payment assistance to attract home buyers to purchase and rehabilitate homes;
- Funds for the acquisition and rehabilitation of vacant homes for resale to new homebuyers;
- Programs for existing homeowners and businesses to improve their properties;
- Programs that encourage weatherization and energy retrofits to achieve energy efficiency;
- Development of mixed-use projects that may combine housing, retail and office space;
- Development or enhancement of community open space;
- Development of public infrastructure, such as parking and lighting and improvements to pedestrian and bicycle circulation;
- Strategic demolition, including land and banking, to stimulate redevelopment; and
- Operating costs associated with implementing BRNI-supported capital projects, including staff and consultants.

1. **ORGANIZATION AND PROGRAM DESCRIPTION** (continued)

I. Food Hub Initiative

A Food Hub is an organization or business that manages the aggregation, distribution and marketing of source-identified food products. Food hubs promote local or regional producers in order to meet the growing demand of locally sourced products. Food hubs strengthen the critical connection between farmers and consumers and support local and regional food systems. As such, food hubs improve market access for producers along wither potential for expanding the availability of healthy, fresh food in communities, including under-served communities adding considerable value to the current food distribution system.

For the year ended June 30, 2015, $1.25 million was appropriated for Food Hubs in the Department of Housing and Community Development budget, specifically $750,000 for Baltimore Food Hub and $500,000 earmarked for Eastern Shore Food Hub. Both allotments require the recipient provide equal and matching funds.

The grant to the Baltimore Food Hub is provided to the Board of Directors of the American Communities Trust, Inc. for the acquisition, design and construction of a food hub facility including the renovation of the Eastern Pumping Station and the construction of a food pantry, urban farm, kitchen incubator, food distribution facility, food production facility, and community spaces.

The grant to the Eastern Shore Food Hub is provided to the Board of Directors of Real Food Production L3C for the design, construction, and capital equipping for a facility to serve the Eastern Shore Food Hub.

J. Partnership Rental Housing Program

Authority: Article - Housing and Community Development,
§§4-1201 through 4-1209 and §4-503. Regulations covering the program are found at COMAR 05.05.05

The Partnership Rental Housing Program is to expand the supply of affordable housing for low-income households through a partnership between the State and local governments. The program was created in 1988 as a pilot program and was enacted as a permanent program in fiscal year 1991. In 2006, the Program was amended to expand borrower eligibility to include private sector entities that agree to provide rental units to lower-income households that include one or more individuals with disabilities or special needs. Financing is provided in the form of deferred loans to projects that can be maintained economically as lower income housing. Except in the case of housing for individuals with disabilities or if there is a conflict with federal law, residents must contribute services to enhance or maintain the facility, grounds or community.

1. ORGANIZATION AND PROGRAM DESCRIPTION (continued)

K. EmPower Maryland Energy Efficiency and Housing Affordability (MEEHA) Program

The purpose of the Multifamily Energy Efficiency and Housing Affordability (MEEHA)-Empower Program is to promote energy efficiency and affordability in the State's multifamily rental housing developments for low and moderate income households. These improvements are intended to reduce a building's energy use and lower utility bills for occupants and owners. Financing is provided in the form of loans and grants with flexible terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

SFLP utilize the enterprise fund accounting method for financial reporting purposes in accordance with governmental accounting principles generally accepted in the United States of America. The accompanying financial statements present the financial position, change in financial position and cash flows of SFLP.

The accompanying financial statements are prepared on the accrual basis of accounting. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, SFLP have elected not to apply non-GASB pronouncements issued on or after November 30, 1989.

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Relationship with the State

SFLP are just a few of the many programs administered by DHCD and the State. Other State agencies, such as the Department of Budget and Management, support DHCD by providing services for DHCD and thus allocate a portion of their expenses to DHCD. SFLP have no direct employees and are entirely supported by staff at DHCD to perform all necessary functions of SFLP. DHCD allocates certain operating, general and administrative costs to SFLP, which is DHCD's estimate of its cost to manage and administer SFLP's operations. This allocation from DHCD is not necessarily representative of SFLP cost as if they were a stand-alone entity and could significantly change in the future. SFLP records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year end. Any adjustment is included on the invoice and recorded in the period in which the adjustment is identified.

SFLP's accompanying financial statements are not indicative of SFLP as if it were a stand-alone entity. SFLP are included in the enterprise funds of the State.

D. Acquired Property

Properties acquired as a result of foreclosures are carried at the lower of principal balance at the date of the ratified foreclosure or at management's estimate of the net realizable value of the property less estimated expenses and losses related to the maintenance and sale of the property. As of June 30, 2016 SFLP had no acquired properties.

E. Revenues and Expenses

SFLP distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from mortgage lender activities in connection with SFLP's ongoing operations. The primary operating revenues are interest income on loans. Operating expenses include expenses relating to the servicing of the loans, provision for loan losses, asset management, salaries, and administrative expenses. Non-operating revenues and expenses include payments related to participants in MD BRAC and contributions from the State. To the extent considered to be material by management, loan origination fees and costs are capitalized and amortized over the estimated life of the related loans.

3. CASH AND CASH EQUIVALENTS

A. Definition

SFLP define cash and cash equivalents as cash and short-term investments that are held on deposit with the State Treasurer and any unspent appropriations. Cash receipts and disbursements of SFLP are made through a cash pool maintained by the State Treasurer. The cash is invested under the State's guidelines. Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

As of June 30, 2016 and 2015, SFLP had deposit balances with the State Treasurer and restricted deposits of $1,632,300 and $12,816,954, respectively. This balance included short-term investments of $1,171,780 and $1,187,243 as of June 30, 2016 and 2015, respectively.

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SFLP adhere to Maryland State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates. The Maryland State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase.

C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SFLP's policy for reducing its exposure to credit risk is to comply with the Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. SFLP's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30 percent of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

3. CASH AND CASH EQUIVALENTS (continued)

E. Restricted Deposits

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net assets use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other government; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all funds and accounts whose purpose is to pay future claims are restricted as to their use, as is interest earned on these restricted assets.

One of the SFLP's programs, CAP, is designed to enable private lenders to establish a loan loss reserve fund from fees paid by borrowers, lenders, and the State. CAP is exempt from the requirements of Title 6, Subtitle 2 of the State Finance and Procurement Article, which is the source of the State's investment policy (specifically, Section §6-223 of the Finance and Procurement Article).

CAP is exempt from the requirement cited in that section by virtue of Article – Housing and Community Development, Section §6-309(f)(2), which specifically exempts DHCD's contributions from the requirements of Title 6, Subtitle 2. Therefore, CAP reserve accounts are not required to be under the $250,000 maximum insurance coverage per account from the Federal Deposit Insurance Corporation (FDIC).

The CAP reserves are restricted deposits in what management believes to be high quality financial institutions. However, to the extent that each of these accounts exceeds $250,000, they are exposed to custodial credit risk as the excess is both uninsured and uncollateralized. As of June 30, 2016, the combined restricted cash bank and book balance was $390,062 of which $40,353 was not insured and collateralized. As of June 30, 2015, the combined restricted cash bank and book balance was $367,800 all of which was insured and collateralized.

As of June 30, 2016 and 2015, the MD BRAC program had $1,632,300 and $5,878,255 in cash. This program is restricted to making loans for the specific purpose of providing multifamily developers with short term loan financing. These developers will help to alleviate the impact of the Base Realignment and Closure (BRAC) initiative in the Counties surrounding the Fort Meade area.

3. CASH AND CASH EQUIVALENTS (continued)

F. Custodial Credit Risk-Deposits

Custodial credit risk is the risk that, in the event of a bank failure, SFLP's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in SFLP's name. SFLP do not have a formal deposit policy for custodial credit risk, but follow the Maryland State Treasurer's policy which states the Treasurer may deposit in a financial institution in the State, any unexpended or surplus money in which the Treasurer has custody. As of June 30, 2016 and 2015, all of the SFLP's cash was deposited with the State Treasury, and this was not subject to custodial risk.

4. LOANS AND NOTES RECEIVABLE, NET OF ALLOWANCE

Loans are stated at the amount of unpaid principal adjusted for any write-offs, allowance for loan losses, and deferred fees or costs on originated loans.

The allowance for loan losses is established through a provision for loan losses when management believes that repayment of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on current factors and prior loan loss experience.

Current factors include, but are not limited to, changes in the composition and volume of the loan portfolio, overall portfolio quality, and review of specific problem loans in conjunction with the current economic conditions that may affect the borrower's ability to pay.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in the factors considered, such as the economic condition of the borrower or certain related industry concentrations. All loans are for property located within the State of Maryland.

4. LOANS AND NOTES RECEIVABLE, NET OF ALLOWANCE (continued)

Management considers a loan to be impaired when the loan is 60 days delinquent from its stated repayment terms. As of June 30, 2016 and 2015, there were 1,240 and 938 loans, respectively, with outstanding principal of $10,598,705 and $11,608,785, respectively, considered impaired and written down to their estimated net realizable value.

Composition of SFLP Loan Portfolio

SFLP established a 100 percent allowance for loan losses on all Partnership Rental Housing Program loans because the program is such that the loans do not have to be repaid as long as the borrower complies with the terms of the program and continues to use the property in accordance with regulatory agreements. For the years ended June 30, 2016 and 2015, the provision for loan losses includes $12,602,696 and $15,729,194 respectively, related to loans issued during the year from the Partnership Rental Housing Program.

The change in the allowance for loan losses was as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Beginning balance	$ 305,030,754	$ 290,243,931
Provision for loan losses	12,602,696	15,729,194
Loans (charged off) / recovery	(4,208,843)	(942,371)
Ending Balance	$ 313,424,607	$ 305,030,754

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
STATE FUNDED LOAN PROGRAMS

Notes to the Financial Statements
June 30, 2016 and 2015

4. LOANS AND NOTES RECEIVABLE, NET OF ALLOWANCE (continued)

Composition of SFLP Loan Portfolio (continued)

As of June 30, 2016	Number of Loans/Notes	Outstanding Principal	Allowance for Loan Losses	Loans/Notes Receivable, Net
Rental Housing Programs*	394	$ 368,928,203	$ 55,074,591	$ 313,853,612
Homeownership Programs	13,848	114,077,258	15,653,621	98,423,637
Special Loan Programs	1,719	73,061,885	16,401,892	56,659,993
Neighborhood Revitalization Programs	231	35,716,858	13,385,089	22,331,769
Partnership Rental Housing Programs	103	212,659,992	212,659,992	-
BRAC - MF loans	1	5,868,750	249,422	5,619,328
Loans receivable	16,296	810,312,946	313,424,607	496,888,339
Notes receivable	1	538,000	-	538,000
Total Loans and Notes Receivable	16,297	$ 810,850,946	$ 313,424,607	$ 497,426,339

*Includes Construction Loan Program

As of June 30, 2015	Number of Loans/Notes	Outstanding Principal	Allowance for Loan Losses	Loans/Notes Receivable, Net
Rental Housing Programs*	373	$ 324,533,310	$ 50,444,801	$ 274,088,509
Homeownership Programs	14,493	104,713,484	15,165,712	89,547,772
Special Loan Programs	1,730	73,537,185	15,690,892	57,846,293
Neighborhood Revitalization Programs	190	34,643,221	16,756,546	17,886,675
Partnership Rental Housing Programs	99	206,909,053	206,909,053	-
BRAC - MF loans	1	1,500,000	63,750	1,436,250
Loans receivable	16,886	745,836,253	305,030,754	440,805,499
Notes receivable	1	538,000	-	538,000
Total Loans and Notes Receivable	16,887	$ 746,374,253	$ 305,030,754	$ 441,343,499

*Includes Construction Loan Program

5. NOTE PAYABLE

In April 2010, the DHCD obtained a loan from the John D. and Catherine T. MacArthur Foundation to foster and enable preservation of affordable housing for low-income persons and families near military bases in those counties in Maryland which are impacted by the Base Realignment and Closure initiative (BRAC). The entire potential amount of the loan is $4,000,000, of which $3,000,000 has been received as of June 30, 2016. DHCD is required to make quarterly payments of interest on the unpaid principal balance. Principal payments are due, as of June 30, 2016, assuming DHCD will receive the additional $1,000,000.

DHCD Loan principal payback schedule due to MacArthur Foundation

Date	Amount
April 1, 2018	$ 1,000,000
April 1, 2019	1,000,000
April 1, 2020	2,000,000
Total	**$ 4,000,000**

Interest expense for the years ended June 30, 2016 and 2015 were $60,000, each year, at the rate of 2% per year.

In FY 2012, Montgomery County, Harford County, and Howard County committed matching funds for participation in the BRAC. As of June 30, 2016, total notes payable for BRAC is $4,572,500. This balance includes the following loans received from MacArthur Foundation as well as several Maryland counties as shown below.

Loans Payable as of June 30, 2016	
MacArthur Foundation	$ 3,000,000
Montgomery County	320,000
Harford County	300,000
Howard County	320,000
Baltimore County	312,500
Prince George's County	320,000
Total loans payable	**$ 4,572,500**

The funds have been committed for no less than 10 years unless DHCD fails to fulfill any or all of its obligations related to the program. The Counties may terminate their association with BRAC if the default by DHCD is not cured within 30 days. If the default is not cured within 30 days, DHCD will reimburse the Counties' contributions in excess of any loan fund dollars applied towards County projects, subject to the available balance in the MD BRAC Loan Fund.

6. COMMITMENTS

As of June 30, 2016, SFLP committed to provide $107,270,936 in loans and is holding $546,390 in escrow accounts for borrowers.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

Eligible employees who perform services for SFLP and employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. SFLP's only liability for retirement and post-employment benefits is its required annual contribution to DHCD, which in turn was paid in full to the State of Maryland prior to year end. The System is considered part of the State's financial reporting entity, and is not considered a part of SFLP's reporting entity. The System prepares a separate Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.